

The Department of Land and Natural Resources
State of Hawaii

Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Department of Land and Natural Resources (DLNR), State of Hawaii (the State), is headed by the Board of Land and Natural Resources. The DLNR manages, administers, and exercises control over public lands, water resources, minerals and all other interests therein and exercises such powers of disposition thereof as authorized by law. The DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, natural area reserves, and other functions assigned to it by law. In connection with the above, the DLNR leases certain lands and facilities under its jurisdiction to individuals and organizations under long-term and short-term agreements.

The accompanying financial statements of the DLNR have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This Statement establishes new financial reporting requirements for state and local governments throughout the United States of America. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the DLNR has implemented, if applicable, the following GASB Statements in the current year: Statement 33 – Accounting and Financial Reporting for Nonexchange Transactions, Statement 36 – Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38 – Certain Financial Statement Note Disclosures.

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2002, and for the year then ended.

The following is a summary of significant accounting policies.

1. Reporting Entity - The DLNR is part of the executive branch of the State. The DLNR's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DLNR. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DLNR's assets, liabilities, net assets and financial activities.

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Departmental and Governmental Fund Financial Statements – The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DLNR. The effect of interfund activity has been removed from these departmental financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Receivables are amounts owed to DLNR at year end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Unexpended federal awards received for the restoration of the Island of Kaho'olawe as outlined in Title X of the Fiscal Year 1994 Department of Defense Appropriations Act, Public Law 103-139, 107 Stat. 1418.
- Continuing appropriations, which include specific legislative appropriations which do not lapse at the end of the year.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DLNR's governmental and fiduciary funds. The DLNR has no proprietary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

Departmental Financial Statements – The departmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The DLNR has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2002, has been reported only in the departmental financial statements.

4. Fund Accounting – The accounts of the DLNR are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DLNR that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

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Notes to the Financial Statements
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NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued) –

Special Revenue Funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DLNR's major special revenue funds are as follows:

Special Land Development Fund – This fund was authorized under HRS §171-19. The primary sources of revenues to this fund are proceeds from the sales of public lands, all rents from leases, licenses, and permits derived from public lands; and all moneys collected from lessees of public lands within industrial parks. These revenues are principally used for the planning, development, management, operations or maintenance of all lands and improvements under the control and management of the Board of Land and Natural Resources.

Ocean-Based Recreation Fund – This fund was established under HRS §248-8. The fund receives its revenues from fuel taxes and rents from mooring permits at the State's small boat harbors. These revenues are used for the planning, development, management, operations or maintenance of the small boat harbors.

Federal Grant Fund – This fund was established by DLNR to account for its federal grant expenditures and related federal grant reimbursements. It does not account for monies received from the federal government for the rehabilitation of the island of Kaho'olawe.

Capital Project Fund – The capital project fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities. These resources are derived from State appropriations.

Expendable Trust Funds - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes. DLNR's major expendable trust fund is described as follows:

Kaho'olawe Rehabilitation Trust Fund – This fund was established under HRS Title I, Chapter 6K. The primary source of revenues to this fund are moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe.

5. Fiduciary Fund - The DLNR presents as a fiduciary fund, assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

The Department of Land and Natural Resources
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Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.
7. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.
8. Cash and Short-term Cash Investments - Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consist of cash and short-term cash investments held in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental fund balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

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Notes to the Financial Statements
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NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Accumulated Vacation and Sick Leave - Eligible employees who are employed on or before July 1, 2001 are credited with vacation at a rate of 168 hours per calendar year. Eligible employees who are employed after July 1, 2001 are credited with vacation at a rate of 96 hours per calendar year during the first five years of service, 144 hours per calendar year during the next five years of service, 168 hours per calendar year during the next ten years of service and 192 hours per calendar year thereafter. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Eligible employees employed on or before July 1, 2001 are credited with sick leave at a rate of one and three-quarter days per month. Eligible employees employed after July 1, 2001 are credited with sick leave at a rate of one and one-quarter days per month through the first ten years of service and at a rate of one and three-quarter days per month thereafter. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DLNR's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2002 was \$18,436,320.

10. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

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Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Inventory - Inventory of materials and supplies is recorded as expenditures when purchased.
12. Capital Assets - Capital assets, which include, land, buildings, improvements, equipment and vehicles are reported in the departmental financial statements. Capital assets are assets which have a cost of \$5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

Capital assets are depreciated in the Departmental financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements and construction-in-progress. Generally, estimated useful lives are as follows:

Furniture and equipment	5 - 7 years
Vehicles	5 years
Buildings and land improvements	15 - 40 years

13. Grants - Federal awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement type awards are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.
14. Use of Estimates - In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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Notes to the Combined Financial Statements
June 30, 2002

NOTE B - BUDGETING AND BUDGETARY CONTROL

The DLNR's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DLNR as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, the DLNR's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statement of revenues and expenditures – budget and actual – general fund, are presented on the budgetary basis. A reconciliation of general fund revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2002, to general fund revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$898,337 and \$274,038 in the general fund and special revenue major funds respectively, for the period from June 16, 2002 through June 30, 2002, are to be funded with monies budgeted for fiscal 2003. In addition, at June 30, 2002, the DLNR accrued expenditures of \$206,118 and \$272,077 in the general fund and major special revenue funds, respectively, for certain goods and services received through June 30, 2002, which the DLNR will fund with monies budgeted for fiscal 2003. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual. For accounting purposes these amounts are reflected in the departmental and governmental fund financial statements at June 30, 2002, in accordance with accounting principles generally accepted in the United States of America.

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Notes to the Financial Statements
June 30, 2002

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

In fiscal 2001, under section 78-13 HRS salaries and wages for the period from June 16, 2001 to June 30, 2001, were funded with monies budgeted for fiscal 2002. In addition, at June 30, 2001, the DLNR accrued certain salaries and wages for the period prior to June 16, 2001 and certain goods and services received through June 30, 2001, which the DLNR funded with monies budgeted for fiscal 2002. Accordingly, these amounts are included in the statement of revenues and expenditures – budget and actual, for the year ended June 30, 2002. These salaries, wages, goods and services aggregated \$955,766 and \$502,631 in the general fund and major special revenue funds, respectively.

The following schedule reconciles the general fund and other major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis).

	Major Special Revenue Funds			
	General Fund	Special Land Development Fund	Ocean-Based Recreation Fund	Federal Grant Fund
Excess of revenues over expenditures - actual on budgetary basis	\$ 1,218,111	\$ 1,482,365	\$ 230,747	\$ 318,343
Current year's appropriations included in reserved for encumbrances at June 30, 2002	1,034,630	507,870	583,764	2,154,816
Expenditures for liquidation of prior years' encumbrances	(1,744,226)	(179,773)	(325,420)	(1,219,629)
Fiscal 2001 salaries and wages and other expenditures funded by fiscal 2002 budget	955,766	122,895	225,339	154,397
Fiscal 2002 salaries and wages funded by fiscal 2003 budget under Section 78-13 HRS	(898,337)	(86,866)	(154,749)	(32,423)
Fiscal 2002 expenditures funded by fiscal 2003 budget	(206,118)	(8,877)	(65,040)	(198,160)
Excess of revenues over expenditures - GAAP basis	\$ (359,826)	\$ 1,837,614	\$ 494,641	\$ 1,177,344

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NOTE C – CASH AND SHORT-TERM CASH INVESTMENTS HELD IN STATE TREASURY

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorize the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2002, the carrying amount, which approximates the bank balance of the DNLR's cash and short-term cash investments, was \$133,522,912.

NOTE D - RECEIVABLES

At June 30, 2002, receivables for general leases and licenses consisted of the following:

	Special Land Development Fund	Ocean-Based Recreation Fund	Other Funds	Total
Rents, fees and licenses	\$ 17,397	\$ 934,206	\$ 54,625	\$ 1,006,228
Less allowance for doubtful accounts	(17,397)	(694,626)	(50,732)	(762,755)
	<u>\$ -</u>	<u>\$ 239,580</u>	<u>\$ 3,893</u>	<u>\$ 243,473</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$952,078 at June 30, 2002. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

The Department of Land and Natural Resources
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Notes to the Financial Statements
June 30, 2002

NOTE E - CAPITAL ASSETS

The changes in capital assets were as follows:

	Beginning Balance July 1, 2001 (previously reported)	Reclassifications and Adjustments	Beginning Balance July 1, 2001 (restated)	Additions and Disposals	Ending Balance June 30, 2002
Capital assets not being depreciated-					
Land	\$ 544,729,061	\$ (34,217,265) (352,240,704) 20,343,746 (37,146,000)	\$ 141,468,838	\$ -	\$ 141,468,838
Land improvements	-	688,400	688,400	-	688,400
Construction-in-progress	-	5,714,140	5,714,140	7,674,194 (4,433,262)	8,955,072
Other assets	-	31,590	31,590	-	31,590
Total capital assets, not being depreciated	544,729,061	(396,826,093)	147,902,968	3,240,932	151,143,900
Capital assets being depreciated -					
Buildings	20,783,130	8,620,124 (5,495,801) 5,428,420	29,335,873	-	29,335,873
Land improvements	-	33,528,865 (9,842,825) 36,843,900	60,529,940	4,433,262	64,963,202
Furniture and equipment	26,287,364	(9,841,096) (11,212,665) 46,493	5,280,096	317,665 (21,741)	5,576,020
Vehicles	-	9,841,096 (196,566) 588,357	10,232,887	751,853	10,984,740
Total capital assets, being depreciated	47,070,494	58,308,302	105,378,796	5,481,039	110,859,835
Less: accumulated depreciation for -					
Buildings	-	(15,794,103)	(15,794,103)	(842,860)	(16,636,963)
Land improvements	-	(36,863,493)	(36,863,493)	(2,893,309)	(39,756,802)
Furniture and equipment	-	(4,295,230)	(4,295,230)	(242,539) 21,741	(4,516,028)
Vehicles	-	(8,695,805)	(8,695,805)	(615,394)	(9,311,199)
Total accumulated depreciation	-	(65,648,631)	(65,648,631)	(4,572,361)	(70,220,992)
Total capital assets, being depreciated, net	47,070,494	(7,340,329)	39,730,165	908,678	40,638,843
Capital assets, net	\$ 591,799,555	\$ (404,166,422)	\$ 187,633,133	\$ 4,149,610	\$ 191,782,743

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NOTE E - CAPITAL ASSETS (continued)

The implementation of GASB 34 requires that depreciation be accounted for in the Statement of Net Assets and the Statement of Activities. Accordingly, as of June 30, 2001, the DLNR recorded \$65,648,630 of accumulated depreciation.

During the year ended June 30, 2002 the State of Hawaii allocated to the DLNR, buildings owned by the State of Hawaii but utilized by the DLNR, to be recorded in the DLNR's financial statements. Accordingly, during the year ended June 30, 2002, the DLNR recorded \$8,620,124 of buildings and \$5,915,755 of accumulated depreciation to buildings to its capital assets. Also, during the year ended June 30, 2002, the State of Hawaii allocated to other State Departments, land owned by the State of Hawaii and previously recorded by DLNR, but utilized by other State Departments, to be recorded in the other Department's financial statements. Accordingly, during the year ended June 30, 2002, the DLNR decreased land by \$386,386,704.

Effective July 1, 2001, the State's capitalization policy was changed. Accordingly, furniture and equipment and vehicles are capitalized when greater than \$5,000 and buildings and land improvements are capitalized when greater than \$100,000. The retroactive change in policy resulted in write-offs of approximately \$26,747,857. In addition, during the year ended June 30, 2002, certain assets were reclassified.

Depreciation expense for the year ended June 30, 2002, was charged to functions of the DLNR as follows:

Economic development	\$ 198,423
Environmental protection	1,841,480
Culture and recreation	2,307,474
Public safety	145,265
Individual rights	48,713
Government-wide support	52,747
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	\$ 4,594,102

The DLNR performs capital projects which are utilized by other State Departments and Counties when they are completed. Accordingly, the DLNR does not capitalize these completed projects.

**The Department of Land and Natural Resources
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NOTE F - LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	Accrued vacation	General Obligation Bonds
Balance at July 1, 2001	\$ 5,499,373	\$ 10,448,102
Issuance of bonds	-	1,921,308
Principal payments	-	(1,087,967)
Refunded bonds	-	(1,294,924)
Net increase in accrued vacation	243,865	-
Balance at June 30, 2002	<u>\$ 5,743,238</u>	<u>\$ 9,986,519</u>

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2002 are as follows:

\$1,867,548 series BW bonds dated March 1, 1992; due in annual installments of \$103,742; final payment on March 1, 2012; interest at 5.15% to 6.4% payable semi-annually	\$ 726,195
\$1,648,311 series BZ bonds dated October 1, 1992; due in annual installments of \$103,019 commencing October 1, 2000; final payment on October 1, 2012; interest at 5% to 6% payable semi-annually	824,156
\$987,378 series CB refunding bonds dated January 1, 1993; due in annual installments of \$75,945; final payment on January 1, 2008; interest at 4.3% to 5.75% payable semi-annually	<u>455,671</u>
Subtotal carried forward	<u>\$ 2,006,022</u>

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NOTE F -LONG-TERM OBLIGATIONS (continued)

Subtotal brought forward	\$ 2,006,022
\$1,852,409 series CC refunding bonds dated February 1, 1993; due in annual installments of \$132,323 through February 1, 2005 and \$132,295 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi-annually	926,149
\$338,759 series CD refunding bonds dated February 1, 1993; due in annual installments of \$42,340; final payment on February 1, 2003; interest at 3.85% to 5% payable semi-annually	42,340
\$526,713 series CF refunding bonds dated July 1, 1993; due in annual installments of \$58,520; final payment on July 1, 2002; interest at 3.25% to 5.5% payable semi-annually	58,520
\$1,218,020 series CH bonds dated November 1, 1993; due in annual installments of \$67,673 through November 1, 2010 and \$67,649 through final payment on November 1, 2013; interest at 4.1% to 6% payable semi-annually	811,981
\$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of \$158,674; final payment on November 1, 2010; interest at 4% to 5% payable semi-annually	1,427,800
\$1,800,394 series CJ bonds dated January 1, 1995; due in annual installments of \$100,029; final payment on January 1, 2005; interest at 5.625% to 5.8% payable semi-annually	100,029
\$756,420 series CK bonds dated September 1, 1995; due in annual installments of \$42,019; final payment on September 1, 2006; interest at 5% to 6% payable semi-annually	84,038
Subtotal carried forward	<u>5,456,879</u>

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Notes to the Financial Statements
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NOTE F – LONG-TERM OBLIGATIONS (continued)

Subtotal brought forward	\$ 5,456,879
\$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payments on March 1, 2011; interest at 4.5% to 6% payable semi-annually	1,248,456
\$19,478 series CQ bonds dated October 1, 1997; due in varying annual installments; final payment on October 1, 2004; interest at 4% to 5% payable semi-annually	9,162
\$129,212 series CN bonds dated March 1, 1997; due in varying annual installments commencing March 1, 2002 through final payment on March 1, 2017; partially refunded \$11,135 by the issuance of refunding General Obligation Bonds, Series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually	113,034
\$214 series CP bonds dated October 1, 1997; due in varying annual installments commencing April 1, 2002 through final payments on April 1, 2021; interest at 5% to 5.5% payable semi-annually	214
\$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2021; interest at 4.75% to 6% payable semi-annually	85,000
\$1,500,988 series CS bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2003 through final payment on April 1, 2009; interest at 5% to 5.25% payable semi-annually	1,500,989
\$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2012; interest at 5.25% to 5.75% payable semi-annually	228,231
Subtotal carried forward	8,641,965

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Notes to the Financial Statements
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NOTE F – LONG-TERM OBLIGATIONS (continued)

Subtotal brought forward	\$ 8,641,965
\$456,926 series CW bonds dated August 1, 2001; due in varying annual installments commencing August 1, 2005 through final payment on August 1, 2015; interest at 3.4% to 5.5% payable semi-annually	456,926
\$887,628 series CY bonds dated February 1, 2002; due in varying annual installments commencing February 1, 2007 through final payment on February 1, 2015; interest at 3.6% to 5.75% payable semi-annually	887,628
	<u>\$ 9,986,519</u>

Interest paid by the DLNR during the fiscal year ended June 30, 2002, approximated \$529,000.

The approximate annual requirements to amortize the general obligation bond's debt and related interest are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2003	\$ 936,459	\$ 475,139	\$ 1,411,598
2004	751,351	432,936	1,184,287
2005	768,376	397,637	1,166,013
2006	1,091,683	355,040	1,446,723
2007	1,193,974	298,840	1,492,814
2008	1,178,615	240,865	1,419,480
2009	1,131,432	182,259	1,313,691
2010	769,035	126,792	895,827
2011	788,214	86,391	874,605
2012	466,242	51,806	518,048
2013	373,108	29,158	402,266
2014	245,199	16,650	261,849
2015	187,567	9,476	197,043
2016	59,051	3,615	62,666
2017	17,985	2,321	20,306
2018	6,549	1,392	7,941
2019	6,877	1,065	7,942
2020	7,221	721	7,942
2021	7,581	360	7,941
TOTAL	<u>\$ 9,986,519</u>	<u>\$ 2,712,463</u>	<u>\$ 12,689,982</u>

The Department of Land and Natural Resources
State of Hawaii

Notes to the Financial Statements
June 30, 2002

NOTE G - RETIREMENT BENEFITS

Substantially all employees of the DLNR are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost sharing multiple employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the ERS consisted only of a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are excluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Contributions for employees of the DLNR are paid from the State General Fund.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis.

The State's policy is to fund its required contribution annually. The DLNR's share of the retirement system expense for the fiscal year ended June 30, 2002, was included as an item to be expended by the Department of Budget and Finance, State of Hawaii, and is not reflected in the DLNR's financial statements. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2002.

The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained from the ERS.

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all DLNR employees, their spouses and dependent children under age 19. Employees hired before July 1, 1996, who retire with at least ten years of credited service, qualify for health benefits at no cost. Employees who were hired on or after July 1, 1996, with at least ten years of credited service, qualify for health benefits on a cost-sharing basis. Employees with 25 or more years of credited service qualify for health benefits at no cost.

There are currently approximately 30,300 state retirants receiving such benefits. Employees hired after July 1, 2001 will not receive health benefits for their spouse and dependents when they retire.

The Department of Land and Natural Resources
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Notes to the Financial Statements
June 30, 2002

NOTE H - COMMITMENTS AND CONTINGENCIES

Litigation -

The DLNR is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DLNR.

Insurance -

Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2002 approximated \$162,000 and are reflected as expenditures of the general fund. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

Deferred Compensation Plan -

In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Due to State Treasury -

Included in the special revenue funds are approximately \$6,244,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and \$2,726,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

**The Department of Land and Natural Resources
State of Hawaii**

Notes to the Financial Statements
June 30, 2002

NOTE H - COMMITMENTS AND CONTINGENCIES (continued)

Other -

At June 30, 2002, substantially all of the reserve for encumbrances in the capital projects fund relates to construction contracts.

NOTE I - SMALL BOAT HARBORS AND BOAT RAMPS PROGRAM

During the year ended June 30, 2002, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$98,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2002, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$253,000 for these services.

NOTE J - CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2002, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$1,522,000 in Central Service and Administration fees. At June 30, 2002, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$461,000 in unpaid fees.